KNOWLEDGE IS POWER:
WORKING EFFECTIVELY WITH SITE SELECTORS
International Economic Development Council

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President and CEO
Mississippi Manufacturers Association
Chairman of the Board

Dennis G. Coleman, CEcD, FM
President and CEO
St. Louis County Economic Council
Immediate Past Chairman of the Board

Jeffrey A. Finkle, CEcD
President and CEO
International Economic Development Council

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The EDRP Program is the “think tank” component of IEDC and specifically designed to serve economic development professionals weather the challenges, and grab opportunities from, economic changes affecting our communities through information dissemination and best practice strategies on critical issues. EDRP members represent the leaders in the field of economic development and through this program work to improve the knowledge and practice of the profession they serve.

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Ronnie Bryant
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CityWide Development Corporation

Rob Camoin
Principal
Camoin Associates

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North Carolina’s Eastern Region

Tim Chase
President and CEO
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President and CEO
CDC Small Business Finance Corporation

Denny Coleman
President and CEO
St. Louis County Economic Council

JoAnn Crary
President
Saginaw Future, Inc.

Vann Cunningham
Asst. Vice President, Economic Development
BNSF Railway Company

Buzz David
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North Louisiana Economic Partnership

Jim Fram
Senior Vice President, Economic Development
Tulsa Metro Chamber

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Fay-Penn Economic Development Council
Tom Kucharski  
President and CEO  
Buffalo Niagara Enterprise

Michael Langley  
President and CEO  
Minneapolis Saint Paul  
Regional Economic Development Partnership

Barry Matherly  
Executive Director  
Lincoln Economic Development Association

Susan Mazarakes-Gill  
Executive Director  
Longview Economic Development Corporation

Kenny McDonald  
President and CEO  
Columbus 2020!

Alfie Meek  
Director, Community Information Services  
Georgia Tech Enterprise Innovation Institute

Phil Mitman  
President and CEO  
Lehigh Valley Economic Development Corporation

Jay Moon  
President and CEO  
Mississippi Manufacturers Association

Deidre Myers  
Director, Research and Economic Analysis  
Oklahoma Department of Commerce, Office of Business Location

Rick Platt  
President and CEO  
Heath-Newark-Licking County Port Authority

Craig Richard  
Chief Economic Development Officer  
Greater Houston Partnership

Bill Sproull  
President and CEO  
Richardson Economic Development Partnership

Allison Thompson  
Executive Director  
Cedar Hill Economic Development Corporation

Kimberley Walesh  
Chief Strategist  
City of San Jose, Office of Economic Development

Rick Weddle  
President and CEO  
Metro Orlando Economic Development Commission

Roy Williams  
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Executive Vice President  
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Greg Wingfield  
President and CEO  
Greater Richmond Partnership, Inc.
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About This Report’s Methodology

IEDC staff conducted extensive phone interviews during the summer of 2011 with site selectors, economic developers, and related stakeholders to gather the content for this report. Interviewees were identified by members of the Economic Development Research Partners (EDRP) program, which provided funding for the project, and also by IEDC staff and interviewees who recommended other individuals to interview for the report.

Interviewees were offered anonymity due to the sensitive nature of the report’s content and to encourage candid conversations.

IEDC interviewed 20 economic developers who work or have worked for state, regional, or local economic development organizations. The organizations that interviewees represent (now or in the past) span 11 states. The majority of economic developers hold or held high-level positions in their organizations, typically the presidency or vice presidency.

IEDC also interviewed 18 individuals who work or have worked in the site selection field. These interviewees come from small and large firms that focus on a range of different site selection activities. In addition to economic developers and site selectors, IEDC interviewed two knowledgeable observers of the site selection field.
I. Introduction

Business attraction is the trunk from which economic development practice grew the broad branches it has today. Though it does not dominate economic development practice in the early 21st century as it did in earlier years, it remains a core function of many economic development organizations.

The site selection industry – the private-sector side of business attraction, in which a company or a hired consultant helps evaluate locations to develop, relocate, or expand a facility – also has changed dramatically, particularly over the past 20 years. Those changes have had significant impact on how many economic developers operate.

Based on dozens of interviews with economic developers, site selectors and industry observers, this report offers an in-depth look at the site selection industry today. It discusses trends in the industry’s evolution, the impact of those trends, and issues and challenges that economic developers often encounter when working with site consultants. It concludes with practical recommendations to help economic development organizations (EDOs) better prepare to work with site selectors on all aspects of a project.

This research finds that to be an effective community representative in the site selection process today, economic developers are best equipped by educating themselves about how the industry works, knowing what questions to ask, and negotiating based on a set of clear principles.

What Is Site Selection?

“The purpose of site selection is to find the most appropriate site for a business from an economic and operational perspective,” according to IEDC’s Economic Development Marketing and Attraction manual. Yet “site selection” is a term that can mean different things to different people. To some, it refers to a holistic analysis that considers the best region for a firm to locate from a long-term strategic perspective, in which the actual building or site is almost an afterthought (the term “location strategy” may be a more accurate description). To others, “site selection” denotes a focus on the actual physical facility, rather than the broader strategy behind that choice.

The economic and operational perspectives mentioned above have become much more comprehensive over the years. The most experienced site selectors
interviewed for this project view incorporating a client’s strategic objectives as central to their work, as opposed to property and financial considerations as a primary focus.

**History and Evolution of Key Actors**

The site selection industry essentially grew from one firm, which led the field for decades until companies from an array of related industries began to offer site location services in the 1990s.

The Fantus Factory Locating Service is considered the originator of site selection practice. Leonard Yaseen founded the business in the 1930s as an outgrowth of his father-in-law’s industrial real estate brokerage when he saw an opportunity to profit from offering relocation advice. Though Fantus originally helped businesses move their facilities, the company also began “advising cities, states, regional organizations, utility companies, and railroads on how to attract businesses” in the 1950s. From its inception to Deloitte & Touche’s purchase of the company in the 1990s, Fantus was the biggest name in the site selection business.

Other companies conducted site location work during the Fantus era, such as Moran, Stahl & Boyer, engineering companies Lockwood Greene and Fluor Daniel, and boutique firms started by individuals who left Fantus or other big companies. Specialized firms also branched out into the business from related fields such as real estate. But the makeup of the industry changed significantly in the 1990s when large realty companies and accounting firms established or expanded practices in site selection.

Real estate companies had always been involved in site selection, but typically in the role of finding the right property after a business had decided to locate in a particular city or region. Then in the 1990s, Fortune 1000 firms began to outsource their real estate functions or divisions to national real estate companies. These firms expanded their services to include site selection, building up their practices to do offer upfront assessment and analysis.

Around the same time, major accounting companies such as Deloitte & Touche, Pricewaterhouse Coopers, KPMG and Ernst & Young began developing supplemental practices in location analysis, as so much of the work involved

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2 Ibid.
cost management, process improvement, real estate, taxes, tax variations and incentives. They became dominant players in the field until the collapse of Enron shone a light on possible conflicts of interest within accounting firms that also provided management consulting services to the same clients. The Sarbanes-Oxley Act of 2002, passed in the wake of major scandals involving corporate financial reporting, introduced changes to the regulation of financial practice and corporate governance that led many to spin off their consulting divisions.

Law firms also began participating more in the site selection process over the past decade, primarily around real estate and incentives negotiation.

While this is not an exhaustive list or history of industry participants, it illustrates how a field that draws from so many disciplines attracts entrants from related industries who seek to expand their core business.
II. Recent Trends and the State of the Industry Today

Steep economic and technological changes in recent decades have changed how the site selection industry works. Significant trends in the industry over the past 20 years include:

1. The use of the Internet and personal computing
2. Increased speed of the site selection process
3. Increase in international searches
4. Expanded number and types of companies offering site selection services (discussed above)
5. Multiple, specialized consultants working a single project
6. Increase in size of incentive packages
7. Increased sophistication among EDOs

Use of the Internet and personal computing. Over the past 10 to 15 years, increasing use of the Internet – both by economic developers putting information out on websites and by site selectors conducting searches online – has transformed the way site searches are performed.

Beyond what EDOs provide on the web, the advent of personal computing and the increased availability of public and private databases and software since the early 1990s have made it much easier for site consultants to gather and analyze ever-larger data sets. As a result, the decision-making process has become more technical and data-driven, and site selectors no longer have to spend significant resources maintaining proprietary data sources.

Prior to widespread use of the Internet, EDOs were information gatekeepers and facilitators. Site selectors often needed to collect data directly from them in order to conduct a site search, and communication between the two began during the initial stages of the project. Today, communities are much easier to find and evaluate (and at the same time, easier for a consultant to eliminate without ever picking up the phone). Much more filtering of potential locations goes on before contact is made with any EDOs, and contact that is made occurs much later in the process.

Increased speed of the site selection process. Instant communication and data availability, made possible by personal computing and the web, have
contributed to the acceleration of the site selection process (as they have in nearly every other industry). Requests for information or proposals can be sent and returned instantly via email, and demographic information can be downloaded in seconds.

In addition to these technological factors, many of the consultants interviewed for this project noted greater time pressure from their clients. Clients may want to keep the process brief so it doesn’t leak out to employees, competitors or shareholders; they may need to lower costs or access talent quickly for competitive reasons; or they may have already spent significant time on the process internally and feel pressure to wrap it up quickly. In general, global competitive pressures have accelerated business decision-making across the board, due largely to the spread of analytics and streamlined business processes.

Site selection used to involve much more face-to-face interaction – more “wining and dining,” in the words of one experienced ED professional. Now, projects that used to span a year or 18 months often are completed in six months or less. Some may be reduced to just weeks of EDO involvement, at the very end of the corporate decision process, and be focused primarily on incentives negotiation.

Site visits, too, have become compressed. An economic developer who has supervised almost 500 projects noted that many site visits are now single-day affairs: “I’ve seen them [visitors] be in on the first plane of the day, and out on the last plane of the day.” Consultants point not only to time pressures but to cost concerns often compressing assessments of finalist communities into a week of travel.

Increase in international searches. As communication, trade and travel barriers have fallen, site searches have become increasingly global, both in terms of U.S. firms looking abroad and foreign firms exploring U.S. locations. Location choices have morphed from the a time when companies primarily looked to move from the northern U.S. to the southern U.S. to choices that today span the globe.

The scope of the search may be the biggest differentiator in how clients choose a consultant. Global companies want to work with consultants who can provide seamless services and consistent methodologies throughout the world; only the largest firms and a few smaller, specialized consulting firms or networks have these capabilities.
Companies and their consultants may screen for opportunities years before zeroing in on two or three global regions. They then assess communities within those regions more intensively and ultimately compare the best options and tradeoffs across several countries. These are highly complex evaluations, since cross-border differences such as work rules, tax structures, regulatory environments and business and ethical practices have to be taken into account, and non-standardized databases harmonized.

**Expanded number and types of companies offering site selection services.** This is addressed above and in detail below. For economic developers, the trend means that the site selectors they deal with may come from an array of professional backgrounds and have widely differing motivations, knowledge, and levels of experience. Approaches and site selection drivers are often closely associated with the type of consulting firm and the interests of its management, which in turn attracts clients with similar interests and priorities (e.g., general business strategy, tax structure, incentives, logistics, engineering, specialized manufacturing or operations, or real estate).

**Multiple consultants working one project.** One trend noted by several ED practitioners is that of having two or more consultants working on a project – e.g., a real estate broker, an incentives consultant and a workforce analyst. “It’s something you’re seeing more and more of, because clients want to purchase specialization,” according to one economic developer. Sometimes these different capabilities will be used in sequence as the project progresses, while other clients will go to larger consulting firms who may be able to supply all of these needs in-house.

Confidentiality and sensitivity also influence the selection of the team. In some cases, an international or national consulting firm will team with a local consultant who has regional knowledge and contacts (or influence).

**Increase in competition and the size of incentive packages.** The practice of offering incentives to attract new businesses started out as a way to level the playing field between competing communities. But as competition to attract geographically footloose projects intensified, incentives became a default expectation. Companies see the deals that other firms get and expect to receive that much or more, while communities under pressure to attract jobs and investment feel compelled to offer ever more generous packages. In addition, some consultants who specialize in incentives promote their services and create expectations based on potential “wins” and success fees.
Increased sophistication among EDOs. Several site selectors reported that EDOs have become more knowledgeable about the types of projects that will be successful in their communities, due to better analysis and planning. EDOs also are doing more sophisticated analysis of return on investment to calibrate incentive packages, often using community impact models to determine the direct and indirect value of jobs, tax revenues and other community benefits that would be generated by a new firm over time. In addition, the use of performance standards and clawbacks in incentives deals is much more widespread. (Clawbacks allow a community to regain a portion of an incentive package if a company underperforms on its end of the deal.)

Types of Site Selectors and Their Services
As addressed above, a wide range of individual consultants and companies offer site selection services today. Firms large and small, from an array of industries, may focus just on certain parts of the process or offer comprehensive location strategy services. Some focus on domestic work and others on selected countries or full global searches (though most market themselves as able to do either).

No formal categorization of different types of site selectors exists, and with low barriers to entry in the field – no specific training or certification – the term “site selector” is essentially self-designated or self-defined. (One distinction commonly made among interviewees was between consultants who practice site selection as their core business and those who work in the field to secure downstream work in a related discipline.)

To better understand the background and interests of different actors in the field, similar firms are grouped into categories below. Each type has its strengths and weaknesses, so it is important to note that some types of site selectors are better suited to certain types of projects or companies than others. Each category also includes a paragraph outlining “ED practitioners’ perception,” which summarizes the impressions of each group cited most frequently in interviews for this project.

- **Firms providing comprehensive location advisory services as their core business.** These consultants provide the most in-depth, strategy-oriented services; assessment of a client’s business strategy is the critical starting point for location selection. Their role may be to find the right city or region rather than a specific property (a large client firm may have a real estate department or partners that take over that part of the process). This is a
relatively small group of firms. Organizations range from small, owner-operated firms to specialized practices within large, international professional services or management consulting firms.

For some of these firms, site selection may have been their only or core business for many years. However, when location projects slowed to a trickle in the recession of 2008-2010, many began to take on community strategy projects – e.g., strategic planning or industry analysis for a government entity or private EDO – to stay in business. Other long-established firms have always provided both corporate site selection and economic development services, sometimes through separate divisions or management structures.

**ED practitioners’ perception: Knowledgeable; professional; easy to work with because they understand the nuances of the process.**

- **Real estate firms and brokers.** Depending on the size of the firm, it may have individuals or a department that operates like a consulting group, or it may have brokers who do some site selection work. Some can do their own business strategy and data analysis (labor, e.g.), while others rely on partners for this role. Although services have become more comprehensive over time, consultants within these firms tend to be more focused on property or building selection and project execution. They may be paid a consulting fee, commission, or a combination of the two.

**ED practitioners’ perception: Focused on transactions and narrow parameters – i.e., quick to eliminate a community if it doesn’t have the exact facility sought (though the community may have other advantages). Let existing buildings drive the project. May market their properties first or exclusively. Not strong in terms of holistic analysis – may not value elements such as training. Weaker understanding of taxes and incentives.**

- **Professional service firms.** These include firms or practices within firms whose core business is in an area such as tax and accounting, law, engineering or architecture, but that also offer site selection services typically to generate downstream business for their core services. These firms may focus on niche specialties, such as negotiating incentives deals, structuring real estate deals, or transportation analysis.

**ED practitioners’ perception: Their core business is their “default setting” – they tend to pass over communities if they lack strengths that are in line”
with their core business (e.g., tax consultants let incentives and taxes drive the project). Concern that the project process is not handled as smoothly when led by these groups, due to a lack of broader knowledge and experience, or downstream business interests. Analysis may not be holistic; may not be able to accurately evaluate workforce quality, for example.

- Economic development strategy consultants. Strategic planning for public-sector clients (cities, states or nonprofit groups) typically is the core work of these groups. Some are firms, while others may be former economic developers working individually or loosely affiliated with other independent consultants. Site selection work is typically ancillary relative to community strategy work. This group may also include individuals who worked in site selection for larger firms and now use the knowledge from their former work to guide EDOs in developing strategy and tactics or in making connections.

  ED practitioners’ perception: May not know as much about site selection as the ED practitioner, or if they were involved in site selection in the past, may have dated or narrow perceptions. May lack the background and experience of professional, full-time site selectors.

- Corporate real estate executives. These individuals manage real estate and related assets for their companies. For example, Google has internal specialists to site its data centers. Some of these individuals may have handled a past internal site selection project and then transferred into the real estate function, or they may have been recruited from site selection firms to develop in-house capabilities.

  ED practitioners’ perception: Typically very knowledgeable in their industry; driven by company strategy and culture.

As with any profession, within each of the groups above are individuals with more experience, knowledge, and higher ethics – in short, those who are better at their jobs – than others. With less experienced site selectors, economic developers frequently reported having to “hold their hands” and help them through the process.
Overview of Site Selection Factors

Ultimately, the site selector’s goal is to eliminate the communities with the greatest disadvantages and the fewest advantages for the client. They also aim to ensure that a company can succeed in a location not just today but in the future, so examining significant trends that are under way in a community is important as well.

Site selectors also don’t actually select a location for a client, but recommend options based on analysis and past experience with similar projects and the shortlisted communities. The client makes the choice, sometimes choosing the second or third option for business reasons, or, after better understanding their own needs and the options available, deciding on a different direction.

The factors a consultant considers when conducting a site selection project vary based on the industry, client needs, and a consultant’s method and area of expertise. However, a holistic analysis (one not focused primarily on real estate or incentives, for example) will consider business strategy, operating costs and operating requirements, analyzed through a filter of risk mitigation. Each of these factors includes qualitative and quantitative components.

- Business strategy involves a comprehensive look at the business’s development strategy and all its nuances – what the company is trying to achieve in making the decision to expand or relocate. Top business strategy considerations include breaking into untapped markets; accessing a new
workforce; improving accessibility; tapping into a new source of intellectual capital, research or knowledge; reducing costs for competitive advantage; getting closer to suppliers; changing a company’s culture; or resolving location issues related to a merger or acquisition, for example.

Several experienced site selectors interviewed for this project consider business strategy to be the critical foundation for every project. Location choice has to be understood in terms of how it serves long-term business strategy – e.g., does the company aim to break into Asian markets, to reduce costs, or to focus on new product development? – rather than simply helping a company find a new building. Without this in-depth perspective, a location that looks like the best choice today could end up being problematic in three or five years.

- **Operating costs** cover the cost of doing business in a community and include everything from the state or local regulatory regime to the tax burden, transportation, labor, occupancy, telecom and utility costs and more. The weight given to individual factors will vary depending on the type of facility (e.g., headquarters, manufacturing plant or data center).

- **Operating requirements.** Again, depending on the type of facility, sample factors that may be important include water availability, broadband or electric power capacity/reliability, proximity to a research university, labor skills, access to end markets or air service to company locations, and types of real estate available.

For example, redundant telecommunications and electric supply are key for a data center, but not for white-collar operations. Land costs and transportation access matter most for warehousing and distribution operations. A large manufacturing plant might look for workforce availability and trainability; wage rates and payroll taxes; logistics; supplier location and potential regulatory barriers (e.g., air quality or construction permitting issues).

- **Risk factors.** Risk minimization within the three factors mentioned above is an element in every project. Depending on the industry, a firm might be concerned about operational interruptions from employment issues, willingness of key employees to relocate, supply chain factors, potential for terrorism, natural disasters, telecom security or utility blackouts or brownouts, for example. Or a risk of greater concern may be that of getting a facility built in time to meet a client’s deadline. Predictability in exchange...
rates and the regulatory and tax environment may factor in as well; a client may need to be assured of stability to the structure.

Quality of life is a factor in some projects, particularly those that require executives, managers and skilled workers to relocate, such as headquarters or research and development facilities. These factors may include the area’s image, professional growth and spousal employment opportunities, housing quality and cost, school quality, access to cultural and recreational amenities and acceptance of diversity. However, most newly relocated firms hire people who already live in the region.

**The Site Selection Process: How It Works**

It’s a common joke that site selection consultants are really “site elimination” consultants. Indeed, one experienced consultant noted that “it is the community’s job to ensure that they are not eliminated as site selectors begin narrowing down their list of potential sites.”

The site selection process involves multiple steps of information-gathering, communication, analysis and negotiation, focused on narrowing location choices typically to three or fewer. Site consultants approach projects differently – and again, some consultants perform only certain steps in this process, whereas others may work the project from start to finish – but the following steps are typical.

1. **Defining Project Requirements**

In the initial stage of a site search, a consultant works closely with the client to understand the scope and goals of the project. This process begins with a discussion of business strategy, desired outcomes, deadlines and key location requirements (absolute criteria – needs or “must-haves” – as opposed to preferred criteria, or “wants”). Once this information is collected, the site selector may need to work further with the client to prioritize needs and wants, perhaps by asking the client to assign rank or weight to the various factors (see the discussion of “operating requirements” above).

Sometimes the client team is very clear on its requirements, but typically this is a learning process that the consultant facilitates to refine needs and discuss options. The consultant also needs to get consensus from the client on priority tradeoffs and measures that will be used to assess locations. These may include representative job descriptions, special needs, risk tolerance, existing employee

SITE SELECTORS SPEAK

“The definition of ‘quality of place’ is kind of screwy. Now the emphasis is more on places that can accommodate a diverse variety of people.”
relocation policies or occupancy specifications and timing, among many other critical success factors.

2. Broad Screening and Cuts

No standard method exists for developing and then narrowing the range of location possibilities for a project. Site selectors may conduct initial screening and elimination through Internet research, proprietary databases, personal knowledge, filtering with geographic information systems (GIS), or most often, some combination thereof. GIS allows site consultants to sort regions by certain features (such as highway access) and narrow down a list of locations that meet all the criteria.

One site selector noted that it is typical for consultants to get 90 percent of the information they need through databases and websites. The remaining information comes from the community much later in the process. Consultants are much more likely to use third-party independent, government or proprietary databases to conduct their preliminary screening than EDO websites, as the former provide greater objectivity and more easily comparable data. Typically, consultants will go to community websites or contact EDOs directly as a second step to fill in gaps, to better understand anomalies, or to get information that may not be available from third parties, such as unlisted real estate and recent downsizings.

Different criteria come into play at different points and vary by sector and type of project. Elements such as accessibility and special skills availability are considered very early in the site selection process for headquarters and research projects, while large tracts of flat land may be the most important single factor is an automotive assembly plant. Property taxes and incentives, though important, may not be considered until much later (although for a project such as a global pharmaceutical manufacturer, the tax structure and regulatory environment may be part of the initial screening).

A “long list,” once developed, may range from a handful of communities to half the country, or in a global search, representative communities in several regions around the world. This is the point at which some consultants may begin to reach out to EDOs for detailed information they can’t obtain from websites or databases (e.g., comparable employers, telecommunications infrastructure).

Some will send out a request for information (RFI) for economic development groups to complete and return. For projects with a wide search range (e.g.,
across the United States), they’ll send the RFI out to states; in a more defined area, they may send the RFI only to a cluster of counties in two states. Other consultants will not use an RFI at all, preferring to have direct dialogue with the communities.

Site selectors often gather information from long-list areas about statutory incentives programs. As one consultant said, “We have to have a sense of what the incentives are at that long-list phase, just very broadly…. If you’re looking at costs, incentives offset the costs.” (Addressing one-time costs associated with recruiting and training workers, public infrastructure improvements and assistance with project financing are particularly important for companies considering a major move, even if long-term operating savings are possible.) Some consultants contact the state at this point to ask for site or building information in the regions of interest.

3. Identifying a Short List and Conducting Site Visits

Initial data are integrated with the information collected firsthand from EDOs and then typically run through a scoring or rating model, with each area evaluated on operational considerations and cost factors to develop a composite score. Some consulting firms try to quantify every input, while others will rank firms that meet quality factors, then look at cost rankings as a tradeoff. Sensitivity analyses are often used to help consultant and client teams better understand possible tradeoffs of operating advantages, costs and risks.

After one or several rounds of ranking and cuts, site selectors develop a short list of possible locations. As with long lists, there is no standard short list length, but site selectors interviewed pegged the range of potential options typically at two to five (most often three but sometimes up to seven when many tradeoffs are involved). This is when the due diligence begins, with a deep dive on all fronts, such as the labor market, existing employer interviews, property, and discretionary incentives.

Once the shortlisted communities have been identified, site selectors visit the areas – typically alone for an initial visit and accompanied by client representatives on second or subsequent visits. On these trips, site selectors may visit properties, interview similar employers and other local businesses and meet with elected officials, among a host of other activities. Communities may or may not learn the name of the prospect company at this point. Typically, this comes later, depending on confidentiality issues and the sensitivity of the project.

SITE SELECTORS SPEAK

“At any point, you may have to go back and do things over again. It’s not a one-way street. You may have narrowed down your three final communities only to find that a deal can’t be struck. There can be changes in a community or a company, or a new real estate opportunity can present itself... to end up taking a step back and redoing it, that’s not uncommon.”
Why the Secrecy?

A company may have multiple reasons for wanting to keep its location search under wraps.

- Before the analysis is done, the firm doesn’t know whether a location change is even feasible – whether it will help achieve goals such as operational efficiencies or increased market share. Or, they may not decide to make a change once they see how costly or time-consuming it will be.
- Knowledge that a company may be seeking property in a certain area can have an impact on the real estate market, driving up property values and lease rates.
- If word of a site search gets out before the company makes its decision, rumors and speculation may cause employees to worry about losing their jobs or possibly relocating; make shareholders nervous; or allow competition to somehow use the information to its advantage.
- Speculation in the media and among public officials can be disruptive to the decision process, raising local opposition before a company can detail its plans.
- Media reports may spark counter offers and raise expectations in other states and communities previously screened out, leading to increased political, supplier and customer pressure and project distraction.

A key goal of the community visit is to identify as many risk factors as possible. For example, a community promise to connect a sewer line to an undeveloped property still presents a risk as far as the company is concerned. Mitigating these risks becomes important, and is sometimes the basis for seeking incentives (e.g., for training or infrastructure improvements).

One site selector described these visits as “a whole series of on-the-scene investigations that are arranged by the economic development group. At that time, we’ll start having a sense of where we might be within a particular metro area or county, and then we’ll ask the economic development group to prepare at that time a preliminary incentives package, almost a penultimate package of incentives, statutory and discretionary, that could apply.”

The consultant then typically runs a financial model on each of the shortlisted areas – multi-year cash flow and net present value analyses (perhaps 10 or 20 years), with and without incentives – to determine how the areas compare on both one-time and long-range operating costs.
4. **Negotiating Incentives and Finalizing the Project**

In many states, a wide range of incentives is potentially available to clients. “Incentives are used to attract or retain investment within a community or a targeted neighborhood in that community through...lowering a firm’s cost of doing business,” according to the definition in IEDC’s *Economic Development Marketing and Attraction* manual.

Often, a distinction is made between **statutory** and **discretionary** incentives. In a 1999 article for *Expansion Management* magazine, site selector Dennis Donovan described the difference: “The former are ‘on-the-books’ and available to any qualifying businesses that meet stated criteria. The latter are customized and provided only on a specific project. Discretionary incentives are granted based upon the attractiveness of a project to the particular state and municipality.”

Outside of tax-based or cash incentives, which are the best known, other inducements may include workforce training; expedited permitting; bonds, low-interest loans or loan guarantees; infrastructure improvements or below-market leases. The type of project will determine the type of incentives that a firm considers enticing. These broader types of inducements may be offered by the state or local government or by the private sector (e.g., real estate enhancements by developers or landlords, discounted training by colleges or associations, or relocation assistance by chambers, banks or potential suppliers).

Incentives negotiations occur near the end of the site selection process, often around the same time that a property agreement is negotiated. At this point in a project, typically any one of the short-listed locations (perhaps two or three) could be suitable for a company. The decision becomes a matter of who can structure the best opportunity for the company – not just in terms of incentives but including other key location factors for the project.

Consultants typically recommend keeping more than one location in play, not only for incentives negotiation but as backup in case a “fatal flaw” or an unanticipated issue develops. This could be anything from a structural problem in a building to a sudden announcement of a new competitor in the labor market. Sometimes one community is a clear favorite, but the consultant will keep the remaining short-listed communities active to get the best possible incentive package for the client.
Incentives: How important are they?

The short answer: It depends.

Incentives get a great deal of attention in the media and among elected officials, but their degree of importance varies widely from project to project, as the following quotes from site selectors illustrate.

“The incentive package is a determining factor no more than 25 percent of the time. Most projects are branch operations, not Boeing assembly plants. So many other factors go into the mix that rarely would incentives be the deciding factor...[but] it’s going to be a contributing factor all the time.”

“If two areas are relatively equal, and the incentives differ, it is conceivable that incentives could drive the final decision after you’ve vetted all the locations.”

“If we get down to two or three sites that are very similar... the incentives play a big role in determining who is chosen.”

“You have to remember that incentives are only one part of determining the ultimate site – you have to do so many other forms of analysis. There are a lot of areas where site selectors have to do their due diligence.”

“If I know an area won’t offer incentives, I may screen it out early.”

“Technical requirements of the sites, and most importantly, the ability of that site to meet that client’s schedule, are on an equal footing to incentives.”

“The important thing with incentives is to find out what is meaningful to company. This is different depending on the industry and community. You can have a large incentive package that is not meaningful to the company.”

“You need to find a location that works without incentives, because at some point of time in the future the incentives are going to go away.”

“A lot of companies today won’t take the incentive – they don’t like the clawbacks and they don’t want the risk of not performing.”
Compensation Structures of Site Selectors

Site consultants are compensated in one or a combination of three ways: fixed or flat fee, hourly fee, and contingency fee (which can also be referred to as a transaction fee, performance fee, value-based success fee or commission – essentially, a percentage of the value added to the transaction by the consultant). Some consultants operate only on a fixed fee, but others say that often the client will determine the fee structure (usually a contingency fee, believing that such a structure better motivates the consultant to negotiate hard for the best incentive package). Real estate brokerage firms work on commission, but may get a consulting fee as well for up-front site selection work or if a transaction is not completed. Depending on the services rendered, it may be a blending of both.

According to site selectors interviewed for this report, it has become increasingly common for some consultants to receive a percentage of the incentive package as their primary compensation or as a performance bonus, particularly on larger projects. Some clients prefer this arrangement as they don’t pay anything until they get the incentives, or pay a minimal consulting fee. This structure appears to be more common among groups that have practices specifically focused on incentives negotiation, such as law firms. In response to the Sarbanes-Oxley Act, accounting firms often negotiate payment as a portion of the estimated value their services add.

Among those interviewed for this report, some see the practice of consultants taking a piece of the incentive as unethical, while others don’t. The issue is covered in more depth later in the report.

Concerns from the Economic Developer’s Perspective

Site consultants play a very important role in the success of many economic development programs and agencies, and these relationships are highly valued by the economic development practitioner. However, it is not always an easy or trusting relationship. Among the 18 economic developers interviewed for this report, the following issues were cited most frequently as concerns or problems encountered when working with site consultants, some of which can be addressed and others that are inconvenient truths about the industry today.

- Some types of compensation practices. Contingency fees, in particular, were cited as a concern. ED practitioners see real estate commissions and fees such as those based on a percentage of the incentive package as having the potential to bias consultants, causing them to drive up the incentive
package, show only certain properties or favor certain properties. (See the section below, “Getting Involved: What to Consider as You Work with a Site Selector on a Project,” on page 27 for more discussion of compensation structure.)

Both economic developers and site selectors expressed concern over the practice of accepting a fee from both sides – i.e., when a consultant hired by a corporate client to select a site then requests an additional fee from a community to bring the company there. Regardless of professional association, interviewees who mentioned this practice considered it unethical.

- **Some incentive package negotiations tactics.** Interviewees stated their belief or experience that some site selectors will: leverage one community’s package against another to increase the size; keep a community that’s not truly competitive in the running for the purpose of leverage (a “false option”); or state that a requested incentives package is non-negotiable.

Several site selectors noted that in some cases, state law has the effect of encouraging the use of false options by requiring competition with another state in order to award incentives to a resident company.

- **Misrepresentation (or lack) of skills, ability or experience.** A number of ED practitioners noted that some consultants who call themselves site selectors may have little or no experience in the field and don’t know how to perform the necessary analyses. The site selection industry has no certification or licensing process that signals a high level of knowledge and professionalism. According to one experienced site selector, the choice of consultant is often a good indicator of the client company’s priority and values.

- **Conflicts of interest.** Many site selectors consult for communities to help them attract businesses, using their insight into how companies make decisions and evaluate potential locations as a selling point. Others decline this kind of work, seeing it as a conflict of interest. Most say they will work for a community or state as long as it’s not under current consideration by a corporate client, or in the case of larger, multi-divisional firms, if different teams are involved and separated by an internal “firewall” and the firm’s own ethical and conflict rules. Some communities hire site selectors to do economic development consulting with hopes of getting the consultants’ attention for future projects.
Some economic developers reported having site selectors ask the community to pay their commission or additional fees while the consultant is working for a company on a project. Others reported experiences with consultants who will seek information, partnership or payment from a community before they even have secured a client.

- **Multiple consultants working one project.** As mentioned earlier, it has become more common for two or more consultants to work a project – e.g., a real estate broker, an incentives consultant and a workforce analyst. This creates confusion and duplication of effort if the consultants aren’t talking to each other and no one knows “who’s on first.” It creates a more challenging audience for economic developers to produce coordinated, accurate responses. The potential lack of coordination can affect the client company as well if it impacts the end product.

### Responding to a request for “non-negotiable” incentives

While most economic developers noted that it was uncommon to be presented with a specific, non-negotiable request for incentives, three shared their experiences with such tactics.

**Economic Developer A** “had a deal a couple years ago where a consultant came in with a non-negotiable deal and said ‘hey, if you want to compete you have to meet it, if not, I have to move on.’ In that case, it was justified, but I don’t think it happens that often.”

**Economic Developer B** has guidelines in place that define what his community will and won’t do: If a consultant says that it is non-negotiable that this company will not pay for land – “I see a lot of companies that do this”— he says “thanks for the opportunity, but we don’t give free land.”

**Economic Developer C** has seen companies say that the community has to have a certain item, such as free land, but “more often than not, it’s been a negotiating issue. If you can come back to someone and say ‘we can’t do that, but we can do this,’ you can keep moving forward.”
III. Guidance for Economic Developers

Though many aspects of the site selection process are outside of their influence, ED practitioners can take steps to prepare themselves to work with site consultants. This section is divided into four areas of guidance: the fundamentals of preparing to work with site consultants; what to do when first hearing about a project; what to consider when working with a site selector on a project; and what to consider when employing a site consultant on your community’s behalf.

Preparing to Work with Site Consultants

1. Know your existing businesses, as well as local business climate challenges and opportunities.

A strong business retention and expansion (BRE) program is the foundation of any successful economic development program. Communities that aren’t focused on ensuring the health of their existing businesses will have little success attracting new firms.

Prospective businesses will investigate the local business climate and will want to talk to local CEOs, owners or branch managers, and HR directors. Conversations with local peers can make or break a project, depending on how business leaders feel about the overall business climate and the services they receive. The long-term and recent experience of comparable employers is often the single most important factor in the final selection from a short list.

A solid BRE program is also a source of critical intelligence for economic developers. Those relationships can help EDOs identify potential prospects (e.g., from supply chains), identify key assets and shortcomings in the local business environment, and determine the seriousness of a firm that may be threatening to leave. It also helps avoid offering an employer for an interview who will damage the community’s competitiveness for the project (intentionally or unintentionally).
2. Develop a website with detailed information and keep it up to date.

As noted earlier in this report, the Internet is the first stop in a site consultant’s search. An EDO’s website needs to be easy to find and navigate; provide detailed, up-to-date information on the community (at a minimum, critical components such as major employers); and provide specific staff names, titles and contact information (no form to complete or generic email address, e.g., “info@EDC”).

Tabs that identify target industries, sector development efforts, related university programs and the like will help highlight community assets and potential alignment with a prospect’s interests. A specific entry point or tab for site selectors also helps with site navigation and signals “we are ready to work with you.”

A site consultant reviewing scores of possible communities will simply eliminate those that don’t have needed information readily available on the web, rather than dig for information. “At least have the data standards researched, ready to go and updated annually,” advised one site selector. The more you can be responsive and prepared, the more you increase your chances with a project.”

Incomplete or outdated information conveys a negative impression about a community’s preparedness and sophistication. In addition, a website that contains unique information is more valuable than one that lists simple statistics that can be found elsewhere.

In sum, a website should aim to clearly convey information that you would want site selectors to see or hear if they were to visit your community.

3. Address the basics: Understand how you are prioritizing the sectors in which you want to succeed.

Your community should have an objective understanding of its strengths and weaknesses, plus a strategic plan in place to leverage the strengths and overcome the weaknesses. This should include solid intelligence about the industries and types of projects in which it can be competitive. Such knowledge,

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3 This refers to the data standards developed by IEDC and Development Alliance in 2000. The data categories – covering new and major employers, wages by occupation, tax and utility rates, real estate costs and more – are organized in an Excel file that communities can download and complete. See http://www.iedconline.org/?p=data_standards for more information.

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SITE SELECTORS SPEAK

“[Having] a good website is more important than ever to help [EDOs] stand out. Most EDOs fail the test. The board of directors may not be investing in sufficient research capabilities. Two thirds [of site selectors] are very susceptible to bypass an area because the proper information is not on the website.”
combined with community goals (e.g., certain wage levels or types of investment), helps identify priorities for business attraction. For example, a region that lacks clean, abundant, and affordable water won’t be competitive for a food processing plant, but cheap electricity may put it in the running for a data center. Little will be gained by creating an expectation around something that doesn’t exist; it only wastes resources and damages the community’s reputation for attracting future prospects.

4. **Build relationships with various site consultants.**

Relationship-building benefits both the economic developer and the site selector as familiarity and trust develop. Economic developers who get to know a number of consultants are better able to understand the consultants’ perspective and how to work with them effectively. In turn, consultants become familiar with individual economic developers and communities. Directly addressing a community’s weaknesses with a consultant – and what the community is doing about them – is another way to build trust. And as a consultant becomes comfortable with you individually, they may make side comments that give important clues about a project.

In addition, clients often ask consultants by to comment on the professionalism of the EDO leadership and their ability to get things done with the broader community leadership. A trusted relationship may be a deciding factor in a short list decision. The consultant also may be able to override an apparent negative if they have broader insight into how the community works.

There are many opportunities today for interaction between site consultants and EDOs outside of an actual site location study, such as conferences, consultant forums and some of the tactics included in the following text box.
In Their Words: Tips for Building Relationships with Site Selectors

At IEDC’s 2011 Annual Conference, 14 consultants participated in a site selectors’ forum. Below is a summary of their comments regarding the best ways to communicate and build relationships with them.

- Face-to-face is best, whether bringing the consultant to the community or visiting the consultant’s office. Regarding marketing materials, one site selector said he recently received a packet that must have cost $300-$400 to produce, including a video; the community might have spent less to come visit him.
- Most site selectors have very limited time to participate in familiarization or “fam” tours (events designed to help site selectors get to know a community), though they are useful opportunities. A regional approach is more competitive in getting participation in fam tours, especially if you’re highlighting successes and opportunities for partnership.
- “Once a quarter at most, a brief email in bullet form identifying four or five things you think I might be interested in that I can share with my partners around the world.”
- Don’t include site consultants on your general email list (e.g., don’t inform them of your annual meeting date); target your email content to them specifically. Make sure your subject line describes the content correctly.
- Keep your communication content short, sweet and relevant, and follow up. If you’ve started a relationship, keep it up.
- Some EDOs effectively use short phone conversations, 10 to 15 minutes, to give an update on new incentives or companies moving in or out.
- Have something to say. Don’t just try to make contact to be friendly. What you say should line up with your strategy for attraction; “we’re all aligned with different industries.”
- “There’s no bad way to reach out. I like people that send me cookies. I feel obligated to read whatever’s in that box.”

Other effective methods mentioned included videoconferencing and picking up news from communities on Twitter. In terms of receiving material, most preferred electronic versions, rather than hard copies.

Some larger firms are trying to develop consistent, branded approaches to site selection, and as a result are developing more formalized, metrics-driven methodologies. If a model eliminates a community for metrics reasons, economic developers can be left feeling that the models aren’t evaluating them appropriately, and that the consultant’s knowledge of the community is not sufficient to override or interpret the data, or to recognize special circumstances.

Building relationships and staying in regular touch with news about community changes that are pertinent to consultants (e.g., changes in taxation or available workforce) are ways of continually marketing a community and helping site selectors see beyond just statistics. This has to happen consistently by the economic developer’s initiative, because communities won’t know when they’re being considered for a project, and site selectors won’t know when key community data have changed.

**What to Consider When First Hearing About a Project**

1. *Do due diligence on the consultant with whom you’ll be working.*

Given the secrecy of the site selection process, knowing something about the consultant can provide guidance to respond more effectively. Understanding the consultant’s reputation and the potential influence of his or her industry background are two areas of potential insight.

There are two levels of background and reputation to consider: that of the individual and that of the company. At a minimum, online research should provide information on a company’s and individual’s industry affiliation, experience and projects worked. It may uncover news articles about the projects as well. This information can shed light on typical projects for the site selector and perhaps provide insight into the factors most likely to influence his or her analysis. Professional affiliation also may indicate the consultant’s fee structure.

This stage of the process is a good time to use your peer network to learn about a site selector’s reputation. Fellow economic developers may have worked with that consultant before or know something about the way he or she does business. For example, as one economic developer noted, “After you work on a number of projects with the same consultant and you seem to be coming up short, and you find out that the projects keep going to areas with larger

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**ECONOMIC DEVELOPERS SPEAK**

“If the devil himself is looking to move his headquarters, I’ll deal with whatever consultant he’s got attached to him. We don’t get to pick our customers. In a jobs environment like today, we... don’t have the luxury of saying ‘I’m not going to work with that consultant.’ Anybody who says that they do that, to me, is not serving their community very well.”
incentive packages, you begin to wonder if it is a consultant you want to work with in the future.”

Yet, once you have this information...

2. **Don’t let personal biases or preferences affect professionalism.**

Based on research into professional background, reputation or personal experience, economic developers may have preferences about with whom they’d like to work (and how). Some consultants have reputations for playing favorites or for being tough negotiators. However, economic developers are best served by responding to inquiries from all consultants and in the manner requested. Keeping biases, preconceived notions or other prejudices in check – avoiding trusting a consultant too much, or not trusting any consultant from a particular company – keeps your options open.

3. **Don’t be surprised if the consultant asks about incentives at the first point of contact.**

Consultants do most of their analysis before ever contacting the community. When they do reach out, consultants often seek a broad sense of how incentives might offset overall project costs. Typically sought is a list of the statutory incentives that could apply to a project and their rough magnitude (with discretionary incentives coming into play at this phase only if they would be a “slam dunk” to the project in question). Incentives become one of the cost factors that help to determine how an area is ranked in the long-list stage.

4. **Don’t jump on board too fast – first, get the best understanding of the project you can.**

Economic developers should avoid getting too anxious about landing a project at the start. They need to understand (to the extent possible) the nature of the project and it potential compatibility with the community.

If a consultant has done his job correctly, he should have put together a definitive profile of what the project is about, including information such as industry, size of company, operating requirements, capital investment, jobs, Fortune level and search region. Economic developers who get a project profile that is ambiguous or contains questions they don’t know how to answer should not be afraid to ask the consultant for more information. The site selector has a primary interest in getting correct and accurate information the first time, so he or she should be happy to clarify any questions.

**SITE SELECTORS SPEAK**

“Sometimes if the first phone call they get is about incentives, the economic developer thinks that people only are looking at incentives and not looking at the project holistically – but this is not necessarily true, because a lot of the homework has been done ahead of time without the economic developer’s knowledge.”
Said one consultant, “If they [site selectors] aren’t providing the information, then you are probably not dealing with a highly experienced site consultant.”

**Getting Involved: What to Consider as You Work with a Site Selector on a Project**

Economic developers who know how the site selection process works, what questions they should be asking, and how to listen closely and read between the lines are in a stronger position when working a project. Below are perspectives regarding the usefulness of different types of information, tips for working the process and special considerations for incentives negotiations.

1. **Knowing how the consultant is compensated may help you – but is out of your control, and should not be a significant factor in how to approach a project.**

Economic developers interviewed for this project split on the issue of whether it’s valuable to know if a consultant will be compensated as a percentage of the incentive package. Most site selectors, on the other hand, believe their compensation is irrelevant to the economic developer (though some regard the practice of taking a percentage of the incentive as unethical).

Economic developers who feel that this knowledge is not important cited their lack of control over the issue and the need to make a good deal for the community, regardless of how a consultant is paid. Consultants typically cited reputation or ethics as regulating factors: that site selectors who steer clients to locations that have higher incentive packages (but are not the best choice) are harming their reputations, and the market will eliminate unethical consultants. Or, they said that they often lack control over how they are compensated.

Those who believe that this information is important noted that knowing the other party’s motivation is basic to any exchange or negotiation. Others pointed to protecting public dollars – “You have the right to know where the public incentives dollars are going,” said one economic developer – or the backlash that could result if the public learns that a portion of a large incentive package was paid to a consultant.

For economic developers who want to know how a consultant is being compensated, there are better and worse ways to go about getting this information (and sometimes you simply can’t get it). More than one site
consultant said he “would be insulted” if an economic developer asked him how he was being compensated. So how do you know whether, when, or how you can ask? Some quotes give guidance:

- “In most cases, you learn it over time. There’s nothing wrong in a casual conversation (over lunch, for example) asking how their business works – but not necessarily when they come in with the deal.”
- “It’s not something you ask point blank if you’ve never met the consultant before.”
- “Economic developers talk to each other – they all know who is getting paid in what way.”
- “Those who are on salary/bonus, with their firms being paid by clients on a flat-fee basis, are likely to mention it in casual conversation or in speeches to demonstrate their objectivity. Others will be more elusive.”

Regardless of preference, economic developers have no influence in how a site selector is compensated, beyond declining to work on a project or with a particular consultant. And in that case, they have lost the project before ever getting involved.

2. **Research the prospect, but separate natural curiosity from truly useful information.**

The prospect company’s identity is almost always anonymous in the initial stages of the process. Yet EDOs often want to know who the prospect is in order to target information more effectively, or perhaps to influence the decision through business or political connections. However, one site selector noted that this often backfires, either because the wrong assumptions are made about the company’s strategy or because perceived interference or political pressure diminishes the community’s chances (or even eliminates it from contention).

A number of ED practitioners said that as the project progresses, one can often discern more about the company (even who it is) by asking the right questions. Many also reported researching the prospect using Google Alerts or talking to local utility companies or environmental protection agencies.

However, ED practitioners should stay mum if they figure out who the prospect is. There is a reason the company wants to keep the project confidential, and sometimes, projects just don’t work out. Also, those who learn a prospect’s name that subsequently gets into the media may end up with a reputation for indiscretion.
One consultant advised asking yourself why you want to know: Are you questioning whether the company is financially viable, whether it has a bad reputation, or is it just professional curiosity? Once you understand what you need to know, ask targeted questions to get those specific concerns addressed. You can also set a point in the process at which you need to know (usually when a public body needs to make a decision on incentives).

3. **Research your competition, but don’t go overboard.**

Most ED practitioners see great value in knowing who the competition is because it helps them understand what the company is looking for and gauge their community’s competitiveness for a project. It also helps them to market their comparative strengths to the site selector. However, it’s important to note that competitors may change throughout the process.

If you do learn the competition, several economic developers advised remaining calm. Don’t put too much weight into the information, and definitely refrain from “trash talking” another community. However, if you know your competitors and their weaknesses, you can play up your relative strengths when you talk to consultants, and letting them draw their own conclusions.

Some site selectors view this activity as a waste of time: “You stand on your own two feet. You don’t need to know who the competition is, because it’s not your job. We’re not asking you to do any comparison with another area.”

However, as one economic developer said, “Any piece of information they can give you that’s going to help you do your job better and make them look good to their client, to me, is good for everybody.”

4. **Ask how your community is being compared to other communities and how factors are weighted.**

As one economic developer summed it up, “The way to successfully land deals is to really understand what’s driving the decision.” Asking a consultant targeted questions can help you figure out the parameters of the project and whether your community is a serious competitor for it. It may reveal, for example, whether the consultant is just dealing with incentives; whether the project is basically a real estate transaction; or whether the search is being used primarily to get a better deal out of the home community. Such questions could include:
• What is motivating the company to consider this move? Cost factors? Labor issues? Access to new markets or intellectual capital? (The goal is to learn the underlying motivations.)
• What are the top three factors that will drive where this project locates, and how do they weigh out (e.g., 70 percent labor, 30 percent other factors)?
• Are there any existing ties between the corporation and the community (e.g., a local firm in the prospect’s value chain, or a personal tie on behalf of the CEO)? Understanding local connections can give you a relationship angle to work.
• Conversely, what relationships might the company be interested in establishing (e.g., universities, professional societies, supplier types)?
• What are the gaps in project financing? What costs at your location are higher than a competing location?
• How are you comparing possible sites? On what data points?

5. Make it easy for the consultant to work with your EDO.

Anticipating and being responsive to a consultant’s requests conveys professionalism and reliability on behalf of the EDO, as well as the community’s interest in the project. Other tips include:

• Respond in a thorough and timely way to the RFP. It seems simplistic, but one consultant said, “When a consultant sends you questions, answer questions directly. If they send you a form, answer the questions on the form. Don’t make them fish through a ton of attachments.”
• Have one point of contact responsible for working with the site consultant. That person should either know the answers or be able to deliver them quickly.
• Work closely on setting up the site visit agenda, such as interviews with comparable employers and existing businesses. Be sensitive to time constraints of the project team, especially if the CEO visits.
• Ensure that the people consultants are meeting with are informed, prepared and respectful of client confidentiality.
• Consider the project in the big picture. If you know that a vibrant downtown is an important factor to the prospect, don’t take a visiting team to lunch at a suburban chain restaurant.

Being part of a regional economic development marketing and attraction effort also makes it easier for site selectors to work with your community, especially if
you can demonstrate cooperative and effective relationships among regional players and a seamless economic development process. Aggressive competition among local groups is a definite turnoff, signaling a fractured community and possibly a hostile environment for a company that may have to recruit employees from throughout the region.

6. Interpret what you’re being asked.

Paying close attention to the types of questions the consultant asks can reveal a great deal about both the consultant and the client. For example, questions can indicate whether the prospect will be a good fit for a community (e.g., is the consultant asking about low-cost labor when your strength is in knowledge workers?). Also, consultants who ask generic, off-the-shelf questions may not have a lot of experience, and may need more guidance in working the project.

ED professionals also should expect the level of questioning from the site consultant to intensify as the project progresses. The conversation should also progress with respect to the incentive package, as site selectors need to assess the package against those offered by other communities. However, a conversation that never progresses beyond incentives may signal that your community is a false option.

Special Considerations for Incentives Negotiation

The size of incentive packages continues to grow as both client firms and site consultants expect ever larger deals. The following knowledge and tips for action will help economic developers negotiate smartly.

- **Expect that consultants will try to get the best package possible for their clients, regardless of how they are paid.**

  This is part of what the client hired the consultant to do – don’t take it personally. The composition of final package, however, will depend on the type of incentives that are important to the client.

- **The importance of incentives varies by project, but incentives will never make a bad site good.**

  Incentives are just one part of the analysis, with many other components more important to the decision. Even if a community has generous enticements to offer, those are unlikely to make up for the lack of an operational requirement, or higher costs over the long term. If a community
loses projects on these bases regularly, it may be better served by investing its money to address structural deficits, or by changing its industry targets, than trying to offer more generous incentive packages.

Try to informally draw out how the site selector views incentives and how this compares to the client’s priorities. Ask how the value of the incentive will be treated in the financial modeling. Some consultants will run the financial models first without the incentives and then again with them, to help the client understand the value of the incentives and the risks involved.

- **If you feel the project is worthwhile, be flexible with your incentives package and expect that the site selector likewise will be flexible in negotiations.**

Some incentives are more valuable for certain projects than others. Workforce training may hold no appeal for a headquarters relocation project but be highly valuable to manufacturing plant. Similarly, a company that has to construct a facility may find expedited permitting much more valuable than a tax credit available in the future. The key is to be sensitive to the company’s largest costs and primary risk concerns, and to tailor the incentive package to offset those.

The issue of “non-negotiable” incentives was discussed above in the section “Concerns from the Economic Developer’s Perspective.” In sum, having standards in place for what your community is and isn’t willing to do (addressed in more detail below) is one way to deal with the issue. Economic developers also can offer possible substitutes for the demand.

- **Ask what incentives other communities are offering.**

Sometimes the consultant will tell you, sometimes not. If they tell you, then you have a better idea of how competitive you are, and whether you should try to “sweeten” the deal if you can. One site selector said she will share incentives information, but only if asked for it by communities who want to know what they need to do to remain in the search. She cited a project in which a community is offering to buy a building and lease it to the company at a low rate; if another community asked what it needed to do to be competitive, she would describe the lease arrangement that appeals to the company.

- **If your community is the slightest bit competitive, it’s often better to stay in the game then to walk away from a project, even if you suspect you’re a false option.**
Both economic developers and site selectors shared many reasons to stay in the running for a project. Sometimes, false options become more competitive than originally intended; project factors and competitors can change midstream. There are always trade-offs, many of them unforeseen. Another way to look at it is that it’s better to be a “straw man” in front of the client than not to have a shot at a project, and your suspicions of being a false option may be mistaken. The personality of the community and your responsiveness may impress the client. Finally, the experience helps you better understand that industry and prepares you for future negotiations. However, it may be appropriate to not push as hard (as opposed to walking away entirely).

At the worst, the EDO is out the time, money, and effort required to put the deal together. On the positive side, the EDO may make a good impression on a site selector by responding thoroughly and promptly, laying the groundwork for consideration in future projects.

Even the consultant may not know whether a community is being used as a straw man (whether the client is really serious about all locations), and has to operate on the good faith of the client.

But as one consultant noted, if the site selector tells you that “you need 10 things and you only have two, and they’re still there, maybe you should back off. You want to stop this before you get the community all revved up.” There is nothing more damaging to an EDO’s credibility than a string of high expectations that lead nowhere.

**Signs that your community may be a false option:**

- If the competing location (if known) has no market similarities to your community
- If the type of investment is unusual for your community
- When a company isn’t identifying the “issues” with its old location or its motivations for a move
Establish standards for what you can and can’t do, and realize when to say no.

Economic developers sometimes rush to put an incentive deal on the table without doing the appropriate analyses. They should know what they want to get out of a deal and be able to strike one that is a win for both the community and the company. They also need to recognize when to say “no.”

○ Develop a policy or set of principles to help evaluate deals and defend decisions. Guidelines can help you decide when it’s appropriate to pass on a deal and when to pull out the big guns. For example, a community may decide that it will provide incentives only for jobs that pay above a certain wage level, that it won’t offer incentives for retail projects, or that it will provide enhanced incentives for projects that locate in certain areas or that meet certain transportation, environmental, or other development goals.

○ Conduct an economic impact analysis on the deal. This is not a consistent practice among economic developers but should be, according to some of the most experienced practitioners interviewed. The analysis should aim to answer questions such as: Will the tax revenue from the project pay for the incentives plus related residential and school services that will be needed? Will training dollars invested be recouped in a better-prepared workforce and related payroll taxes? What new business will the project bring to the community’s existing suppliers and service providers as an indirect economic impact?

A community needs to understand what benefits the company will bring (in terms of jobs, investment, etc.) to analyze the true economic benefit of the project – how the community will get its investment back – and structure the incentive package accordingly. The result should be a win-win for both the company and the community.

Economic developers should ask for the detailed information they need from a prospect to do these analyses and make a sound business decision. If the client company is known, due diligence on its financials, reputation and its publicly available plans (e.g., media accounts, annual reports and 10Ks) should be performed and
reviewed by knowledgeable industry analysts. It’s the economic developer’s responsibility to consider the viability of the business and the strength of its promises, even if he or she suspects the community is a false option.

EDOs need to have these impact models prepared independently and not rely on the consultant’s or the client’s versions. If the project or incentive package is large and complex, an experienced economic development consultant or accounting firm with proven economic impact models may be a worthwhile investment.

**When You Don’t Have Enough Information to Negotiate**

Consultants may want an economic developer to propose an incentive package before enough information has been provided about who the client is, what the product is, and other information needed to develop a responsible proposal.

One economic developer described his response as “talking in general terms about the types of incentive programs until such a time when the consultant can tell you everything you need to know to put a final incentive package on the table” – i.e., number of jobs, wages, investment, how much is in real estate, how much is in personal property, the product, and if there are any environmental issues.

“The consultant is trying to get the best package for his or her client, and you want to stay in the competition at that point, but sometimes it becomes difficult to do the due diligence and learn about the company while the consultant is asking what the incentive package is going to look like. That’s a big challenge.”

- **Offer similar packages for similar types of projects.** Consideration should include the level of investment proposed, the number of jobs and salary levels, taxes to be generated and other factors in an economic impact analysis, compared to the incentives offered.

- **Realize that bidding wars tend to result in overly generous packages, regardless of how the consultant is paid.** In these cases, conducting due diligence and economic impact analysis to determine the potential return on investment, and limits to impose, can pinpoint when to walk away from a negotiation that no longer makes economic sense for the community.
• Always make a smart, carefully considered business decision that you can defend.

This point is largely addressed by the remarks above about setting standards for what you can offer and conducting economic impact analyses on potential deals, but economic developers further should consider the nuances and politics of the deal. Would the project have a negative impact on existing employers or foster a negative image of the community? Has due diligence shown that the company is reputable and financially sound? Conversely, is there a difficult-to-measure boost to the community, and how much is that worth? Will this project help seed a cluster or develop a sector?

When guidelines and analysis show that a project would have a positive net economic impact, economic developers should beware of the Implications of “over-committing” — promising something that they may not be able to deliver (e.g., a new railroad siting or highway interchange), or that has the potential to be more costly and time-consuming than originally assumed. Neither the company nor the community wins in this situation.

Finally, ensure that there is transparency in the negotiation process, as the incentive package will become an item of public record. Economic developers need to make sure they won’t be perceived as doing anything unethical or illegal. For instance, they should not agree to pay consultants who have been hired by a firm to do a location analysis any additional fee related to winning the project.

Avoiding the Truly Egregious Outliers

Most incentive deals can be considered “reasonable” at least according to the standards by which such deals are made. However, there is often one case or another in the media spotlight for being an alleged rip-off to a community or state. These cases tend to involve multi-million-dollar incentive packages — sometimes in the hundreds of millions — in which the cost per job is tens or hundreds of thousands of dollars; performance standards or clawbacks are weak or non-existent; the community has agreed to accept responsibility for environmental issues; or it’s revealed after the fact that a consultant pressed for an ever-larger incentive package even after any competition had been eliminated.
In these cases, there is blame to place on both the side of the site consultant who pushed for such a deal and the community that agreed to it. But in the end, it is governments and the economic developers who end up on the firing line, and the community or state that loses by giving a private corporation and a consultant precious resources that could have been used to meet other needs.

While most site selectors seek deals that are win-wins for both the client and the community, some will employ tactics to get whatever they can for themselves and their client, regardless of how the deal may be perceived in the end. One of the goals of this paper is to help economic developers recognize the potential for these situations and put standards and procedures in place to avoid them.

- **Attach clawbacks or other performance-based measures to the incentive package.**

  Performance standards in incentive packages stipulate that a company must achieve certain benchmarks, such as level of investment or number of jobs created, before it can receive a tax credit, grant or other incentive. Clawback provisions – which require repayment of incentive funds, sometimes with a penalty and interest – also have grown in use in recent years. A clawback may be initiated when a company that has received a portion of its incentive package then fails to meet the performance standards outlined in the incentives agreement.

  Performance standards and clawbacks protect the community from financial loss in the case of underperformance by the firm (though time and money are required from the community to monitor performance standards and enforce clawbacks). Performance standards have become the preferred way to manage incentive payouts, since they provide a positive incentive for the company, usually are easier to manage than trying to recover funds after the fact, and result in less negative media coverage for both the community and company if targets are not achieved.

7. **If you don’t win the project, ask why.**

A conscientious consultant will be willing to tell you why your community fell short in the bid for a project. This can provide valuable feedback for the community’s business attraction strategy, for the process of working future projects, or regarding weaknesses that need to be addressed. Or, you may learn that the decision had nothing to do with your community – that the company
was benchmarking as part of a longer-term operational strategy but not ready to pick a site; that the business strategy or economic conditions changed; or that your community was used to leverage negotiations with a competitor or home community.

**Retaining a Site Selector: What to Consider When Employing a Consultant for Your Community**

Communities and states sometimes hire site selection consultants to help them better understand what companies or particular industries are really looking for and how they can become stronger competitors. Such studies may benchmark against other communities, examine the type and location of shovel-ready sites, or analyze the labor market, for example.

Some of the conflicts of interest that can arise when a consultant works for a community and also represents site selection clients were covered in the section above on “Concerns from the Economic Developer’s Perspective.” Such arrangements, however, are not necessarily unethical, as long as consultants adhere to certain standards and economic developers enter such relationships with open eyes. In fact, experienced site selection consultants can offer valuable insight into how location decisions are made from the investor’s perspective. They also can provide practical advice and priorities for how a community can improve its competitive position in specific industry sectors.

Economic developers should consider the following advice when entering this type of arrangement.

1. Research the reputation and the experience of the consultant you’re retaining. Some consultants will misrepresent themselves as site selectors to get economic development consulting business. Check with other communities where they claim to have located businesses. Also, ask the consultant to divulge any corporate interest he or she has in your community.
2. Be wary of a consultant who claims the ability to bring a certain number of companies or jobs to your community.
3. Know that by retaining a consultant, you are not buying that consultant’s loyalty. Not only will the consultant know both the strengths and weaknesses of your community, but the market will eliminate those consultants who show their corporate clients only sites in communities that
have paid them on the back end. A community that hires a site selector for a study that’s essentially a pretense for buying a consultant’s loyalty creates an arrangement with moral and ethical problems for both parties.

What ethical standards should be expected of site selectors who also work for communities?

- Disclosing to corporate clients the work they have done for any communities (often seen as a plus because they know both the strengths and weaknesses of the locations).
- Declining assignments for communities that are in consideration for any projects they are currently working.
- Never asking for fees from a community while collecting consulting fees from an active corporate client.

The driving force for consultants is credibility in the corporate community. If a corporate client feels that a site consultant is leading it to a place where he or she has a special relationship with the community, that perception will cost the consultant future business.
IV. Conclusion

Working with site selectors to attract new companies is an essential part of many economic developers’ jobs, yet there has long been tension between the two parties. The imbalance of power and the opaque nature of the site selection process put economic developers at a disadvantage, particularly those new to the field. Even long-time economic developers have concerns about the experience, background and financial motivation of some consultants; some incentive negotiation tactics; and practices that lead to conflicts of interest. In addition, rapid technological changes and shifts in the business practices of client companies can make it hard to keep up with the latest practices in the site selection industry.

While there is no easy way to peer into the workings of the site selection industry, this publication has intended to provide economic developers with a better understanding of the dynamics and factors that contribute to it, and how to work successfully with consultants in the best interest of their communities. As the industry will continue to evolve, this report represents a snapshot in time, though many of its principles are enduring.

Ultimately, there is no substitute for preparation and due diligence. Economic developers need to have a clear understanding of their communities’ attributes and what businesses they can be successful in attracting; what information site selectors value, and how they get it; what questions to ask of site selectors, and when and how to ask them. The better they can know site selectors personally, and learn about the ones they don’t, the firmer their footing in working a project and negotiating incentives. Economic developers also need to have a clear understanding of the policy tradeoffs inherent in granting incentives – the opportunity cost of those dollars relative to investments in infrastructure, education or other community needs.

Perhaps most important, at least in terms of incentives negotiation, is having standards in place for what the community is willing or not willing to offer to land a project. That means doing the homework required to understand exactly what the community will receive in return for any inducements offered to a prospect, financial or otherwise. In many cases, this may require a sophisticated financial value analysis by a third party. When working with site selection consultants, as is true in most all endeavors, knowledge and preparation are investments that will always pay off.